CHANNEL AREA LOGGERS LTD.

ANNUAL REPORT

1981 - 1982

CHANNEL AREA LOGGERS LTD.

BOARD OF DIRECTORS

J. Christensen - Chairman
President, Swan Equipment Ltd.

A.G. Penner - Vice Chairman
General Manager, A.K. Penner & Sons Ltd.

B.E. Seppala
Industrial Relations Forester
Department of Natural Resources

A. Graham
General Merchant, Berens River, Manitoba

J.N. Tod
Retired Logging Entrepreneur

M. Keil
Special Assistant to the Chairman & General Manager
Manitoba Development Corporation

H.J. Jones
General Manager, C.E.D.F.

M. Prendiville
President, Prendiville Industries Ltd.

OFFICERS

J. Christensen
President

A.G. Penner
Vice-President

G.P. Trithart
Secretary/Treasurer

J. Benoit
General Manager

HEAD OFFICE: Berens River, Manitoba

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ANNUAL REPORT - CHANNEL AREA LOGGERS LTD.

APRIL 1, 1981 - MARCH 31, 1982

I. INTRODUCTION

Channel Area Loggers Ltd. is a Crown Corporation formed in 1973 under the Manitoba Natural Resources Development Act to provide, as a principal objective, an economically viable logging operation creating employment for residents of Berens River and surrounding communities and to train local residents to fill the jobs created.

The Corporation conducts pulpwood harvesting operations on the east side of Lake Winnipeg where there is a serious lack of employment opportunities and a valuable forestry resource exists. The Corporation has suffered losses in each of its fiscal years ending March 31st as follows:

1974	$ 82,298
1975	$ 175,744
1976	$ 391,472
1977	$ 140,749
1978	$ 210,263
1979	$ 109,388
1980	$ 278,011
1981	$ 173,487
1982	$ 17,262

II. SYNOPSIS OF THE YEAR'S EVENTS

Two milestones were experienced during the Corporation's fiscal year ending March 31, 1982. Firstly, the Corporation produced some 27,000 cords of pulpwood, an increase of nearly 8,000 cords over the previous two years and secondly, it experienced its lowest ever net loss - a loss of $17,262 compared to a loss of

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$173,487 in 1980-81. This improvement in financial performance makes it unnecessary for the Government to provide large capital inputs to subsidize losses as has been the case in previous years.

The new General Manager, Mr. James Benoit demonstrated sound and capable management principles and was instrumental in bringing about the favourable results.

In an effort to overcome the large annual losses suffered by the Corporation, the Board of Directors approved the hiring of a non-resident contractor to increase overall production.

Fiscal economic conditions affecting the pulp and paper industry necessitated a carry-over of 6,100 cords of pulpwood inventory by the Corporation as compared to a 700 cord carry-over the previous year. Financing this inventory will result in high carrying costs in 1982-83 especially if high interest rates prevail.

During the year the employee dormitory and kitchen facilities were closed, with the exception of supervisory and support staff facilities. To offset the increased cost to owner/operators and contractors from closure of these facilities, the price paid per cord was increased. The net result was a decrease of $1.02 per cord in the overall cost of producing pulpwood, representing a total saving of $27,500 for the year.

III. REVIEW OF RESULTS

A. Financial Results

Appended are audited financial statements prepared by the Provincial Auditor for fiscal year 1981-82, reporting a loss of $17,262 compared to a loss of $173,487 for the previous year.

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The improvement in the Corporation's financial picture was due to a reduction of $1.34 per cord in the cost of production, a figure which is particularly gratifying considering the inflationary economy that existed. An overhaul of the bulldozer at a cost of $43,000 was expensed at year end and is responsible, in part, for the sharp increase of $3.23 per cord in road costs. Without this large expenditure, a small profit would have occurred.

One significant cost saving measure introduced during the year under review was to shift responsibility for equipment operating expenses from the Corporation to the individual cutters and contractors. This shift in responsibility made employees more accountable and responsible. The increased cost to employees was offset by an increased wood price paid to them. The net effect was beneficial to both the Corporation and efficient operators.

The following table provides per cord cost comparisons for major cost categories over a 3 year period, showing percentage increases (decreases) over the previous year.

Cost Category	1979-80	1980-81	% Increase	1981-82*	% Increase
Cutter & Contract Wood	$ 21.96	$ 25.06	14.11%	$ 38.67	54.31%
Transportation	$ 13.45	$ 14.94	11.07%	$ 13.16	(11.91%)
Company Equipment & Maintenance	$ .93	$ 1.09	17.20%	$ .82	(24.77%)
Roads	$ 3.35	$ 5.14	53.43%	$ 8.37	62.84%
Kitchens & Dorms	$ 6.45	$ 7.07	9.61%	$ 2.01	(71.57%)
General & Administration	$ 9.58	$ 10.93	14.09%	$ 10.51	(3.84%)
Supervision - Bush	$ 1.20	$ 1.63	35.83%	$ 1.83	12.27%

*Based on total sales of 22,000 cords of pulpwood in the 1981-82 operating year.

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B. Production

An outline of production (in cords) for the past three years and delivered pulpwood for the past seven years are included in the following tables:

Annual Pulpwood Production - 1979/80 to 1981/82

	Year Ending		
	March 31, 1980	March 31, 1981	March 31, 1982
Strip Production:			
- Cut, Pile & Forward	2,644	1,568	-
- Contractors	-	2,506	9,479
Skidder Production:			
- Owner/Operators	16,538	15,018	17,781
TOTAL	19,182	19,092	27,260

Annual Delivered Pulpwood Volume in Cords - 1974-75 to 1981-82

1982	22,000
1981	19,151
1980	18,542
1979	16,783
1978	12,260
1977	10,290
1976	7,330
1975	6,040

The high level of production - 27,260 cords excluding 696 cords carried over from 1980-81, with some 26,000 cords placed on the landing and ready for sale - was a key to the improvement in the financial results. Rising interest rates and the softening of the pulp and paper industry markets resulted however in only 22,000 cords of pulpwood being sold.

With the assistance of the Special Arda Program three new owner/operators were added during the year, bringing the total to eleven. These owner/operators accounted for total production of 17,781 cords. One new contractor was added, whose highly mechanized equipment (snipper, slasher and three skidders) produced 7,200 cords.

The increased level of production demonstrates the need for a more sophisticated standing pulpwood inventory and cutting plan which the Corporation will commence to prepare in 1982-83.

Mechanization has had a very favourable financial effect on many of the local entrepreneurs. While this is predictable, careful consideration will have to be given to long run impacts on employment and local needs. An example of this situation is evidenced by the steady decline in strip cutting which was reduced to zero in 1981-82..

Absenteeism and staff turnover continue to be major factors affecting production levels.

C. Other Benefits

The Corporation employed a total of 45 people during approximately 8 months of production. Wages and benefits totalled $484,100 for 1981-82 compared to $565,000 in 1980-81. However, payments to and on behalf of contractors, including wages, amounted to $538,000 in 1981-82 compared to $190,000 in 1980-81. Some 65% of total wages were to residents of Berens River and another 20% to individuals of Indian ancestry from other areas of the Province.

The Corporation is the second largest employer in the Berens River area. Only commercial fishing employs more men.

The Corporation maintains a commissary and grocery store facility for employees. This facility provides a variety of food products, confectionary items and winter clothing, in addition to an ordering office for power saw parts.

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D. Training

The Corporation continues to provide on the job training. However, a shortage of training funds makes it difficult to acquire adequate facilities and retain persons able to provide training.

E. Other Developments

The Province provides a Secretary to the Board of Directors of the Corporation.

The Province provided the Corporation with a subsidy to cover operational losses of $173,487 for the year ended March 31, 1981.

MANITOBA

PROVINCE OF MANITOBA
PROVINCIAL AUDITOR

CHANNEL AREA LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Channel Area Loggers Ltd. as at March 31, 1982 and the statement of loss and subsidy receivable, the statement of changes in financial position and the schedules of operating expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Channel Area Loggers Ltd. as at March 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

W. K. Ziprick, C.A.,
Provincial Auditor.

October 20, 1982,
Winnipeg, Manitoba.

Exhibit A

CHANNEL AREA LOGGERS LTD.

(Incorporated Under The Corporations Act, Manitoba)

BALANCE SHEET AS AT MARCH 31, 1982

(with 1981 figures for comparison)

ASSETS	1982	1981
CURRENT ASSETS:		
Cash	$ 55	$ 69,465
Accounts receivable (Note 2)	116,225	337,146
Subsidy receivable from the Province of Manitoba	17,262	173,487
Inventories (Note 3)	397,516	105,065
Prepaid expenses	18,176	13,026
Total current assets	549,234	698,189
FIXED ASSETS (Note 4)	544,027	539,858
Less accumulated depreciation and amortization	298,270	236,142
Net fixed assets	245,757	303,716
GUARANTEE DEPOSIT WITH THE PROVINCE OF MANITOBA	900	900
TOTAL	$ 795,891	$ 1,002,805

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank indebtedness - bank overdraft	$ 3,628	$ -
- outstanding cheques	56,095	37,386
- demand loan (Note 5)	240,000	475,085
	299,723	512,471
Accounts payable (Note 6)	196,078	187,894
Current portion of contracts payable	-	2,350
Total current liabilities	495,801	702,715
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized: 35,000 common shares, maximum consideration not to exceed $350,000		
Issued: 30,009 shares	300,090	300,090
TOTAL	$ 795,891	$ 1,002,805

Approved by the Board:

_____ Director

_____ Director

The accompanying notes are an integral part of the financial statements.

Exhibit B

CHANNEL AREA LOGGERS LTD.

STATEMENT OF LOSS AND SUBSIDY RECEIVABLE

FOR THE YEAR ENDED MARCH 31, 1982

(with 1981 figures for comparison)

	1982	1981
PULPWOOD SALES	$ 1,411,495	$ 1,088,560
COST OF PULPWOOD SALES - Schedule 1	1,229,800	1,085,274
GROSS PROFIT	181,695	3,286
GENERAL AND ADMINISTRATIVE EXPENSES - Schedule 2	231,258	208,837
(LOSS) BEFORE OTHER INCOME	(49,563)	(205,551)
OTHER INCOME:		
Gain (loss) on disposal of fixed assets	(1,375)	17,802
Miscellaneous	22,720	5,733
Commissary - Schedule 3	10,959	8,529
Total other income	32,304	32,064
(LOSS) FOR THE YEAR	(17,259)	(173,487)
SUBSIDY RECEIVABLE AT BEGINNING OF THE YEAR	173,487	278,011
	190,746	451,498
SUBSIDY RECEIVED	173,484	278,011
SUBSIDY RECEIVABLE AT END OF THE YEAR	$ 17,262	$ 173,487

The accompanying notes are an integral part of the financial statements.

Exhibit C

CHANNEL AREA LOGGERS LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 1982

(with 1981 figures for comparison)

	1982	1981
SOURCE OF WORKING CAPITAL:		
Subsidy from the Province of Manitoba	$ 17,259	$ 173,487
Charges to operations not involving an outlay of funds:		
Depreciation and amortization	65,249	78,281
Loss (gain) on sale of fixed assets	1,375	(17,802)
Proceeds from sale of fixed assets	1,900	30,101
	85,783	264,067
USE OF WORKING CAPITAL:		
Loss on operations	17,259	173,487
Purchase of fixed assets	10,565	23,073
Contracts payable	-	1,754
	27,824	198,314
INCREASE IN WORKING CAPITAL FOR THE YEAR	57,959	65,753
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE YEAR	(4,526)	(70,279)
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR	$ 53,433	$ (4,526)

The accompanying notes are an integral part of the financial statements.

Schedule 1

CHANNEL AREA LOGGERS LTD.

SCHEDULE OF COST OF PULPWOOD SALES

FOR THE YEAR ENDED MARCH 31, 1982

(with 1981 figures for comparison)

	1982	1981
INVENTORY AT BEGINNING OF THE YEAR	$ 38,612	$ 34,614
PRODUCTION EXPENSES:		
Cutters wages and fringe benefits	322,313	264,078
Contract wood	528,573	214,686
Transportation:		
Contract hauling to landing	230,920	159,476
Forwarding to roadside	29,684	63,565
Freight and fuel movement	16,304	32,653
Personnel transport	12,629	29,661
Road construction and maintenance, net	183,875	98,279
Timber dues	68,492	39,021
Supervision	40,259	31,217
Equipment maintenance:		
Shop	14,508	15,880
Chain saws	3,546	4,971
Other	203	696
Net kitchen and dormitory expenses, Schedule 4	44,304	135,089
Total production expenses	1,495,610	1,089,272
INVENTORY AT END OF THE YEAR	304,422	38,612
COST OF PULPWOOD SALES, EXHIBIT B	$ 1,229,800	$ 1,085,274

CHANNEL AREA LOGGERS LTD.

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEAR ENDED MARCH 31, 1982

(with 1981 figures for comparison)

	1982	1981
Salaries, wages and fringe benefits	$ 63,531	$ 72,959
Interest and service charges	63,718	63,037
Travel and accomodation	11,512	14,731
Mobile home	18,396	7,042
Communications	5,566	5,357
Bad debts	31,695	2,337
Truck	861	5,131
Legal, audit and accounting	17,187	17,295
Directors' travel and accomodation	2,890	4,126
Directors' fees	3,243	4,698
Office supplies and utilities	6,756	3,278
Taxes, licences and fees	2,539	1,942
Public relations and donations	-	339
Insurance	1,901	5,210
Miscellaneous	1,463	1,355
Total general and administrative expenses	$ 231,258	$ 208,837

CHANNEL AREA LOGGERS LTD.

SCHEDULE OF NET COMMISSARY INCOME

FOR THE YEAR ENDED MARCH 31, 1982

(with 1981 figures for comparison)

	1982	1981
COMMISSARY SALES	$ 52,000	$ 56,537
COST OF MATERIALS:		
Inventory at beginning of the year	11,884	19,550
Purchases	36,301	35,910
	48,185	55,460
Inventory at end of the year	8,562	11,884
Total cost of materials	39,623	43,576
EXPENSES:		
Wages	1,304	4,264
Miscellaneous	114	168
Total expenses	41,041	48,008
Net commissary income	$ 10,959	$ 8,529

CHANNEL AREA LOGGERS LTD.

SCHEDULE OF NET KITCHEN AND DORMITORY EXPENSE

FOR THE YEAR ENDED MARCH 31, 1982

(with 1981 figures for comparison)

	1982	1981
KITCHEN AND DORMITORY:		
Cost of food:		
Inventory at beginning of the year	$ 9,905	$ 7,751
Purchases	58,251	78,235
	68,156	85,986
Inventory at end of the year	9,011	9,905
Total cost of food	59,145	76,081
Wages	11,151	48,805
Utilities, maintenance and other	5,072	28,646
Insurance and depreciation	13,734	15,169
Total expense	89,102	168,701
DEDUCT FOOD AND BOARD RECOVERIES	(44,798)	(33,612)
Net kitchen and dormitory expense	$ 44,304	$ 135,089

CHANNEL AREA LOGGERS LTD.

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1982

1. Accounting Policies

The accounting policies of the company are in accordance with generally accepted accounting principles and their basis of application is consistent with that of the preceding year.

Inventories:
Pulpwood inventory is valued at the lower of cost or net realizable value based upon the agreed price of deliveries to the purchaser, less an allowance for cullage and shrinkage.

Other inventories are valued at cost.

Fixed assets:
Fixed assets are stated at cost. It is the company's policy to provide for depreciation and amortization of fixed assets on the basis shown in note 4.

Revenue recognition:
Pulpwood sales are recognized on the basis of pulpwood delivered to landing and scaled in accordance with the terms of the sales contract.

2. Accounts Receivable

The major categories of accounts receivable are:

	1982	1981
General	$ 40,663	$ 239,565
Employees	-	239
Insurance recovery	-	1,630
Governments of Canada and Manitoba - Special A.R.D.A. grants	9,450	22,625
Contract cutters	66,112	73,087
	$ 116,225	$ 337,146

3. Inventories

The major categories of inventory are:

	1982	1981
Pulpwood	$ 304,422	$ 38,612
Other:		
Commissary supplies	8,562	11,884
Chain saws	3,581	8,521
Parts and supplies	6,083	14,639
Gasoline and oil	65,857	21,504
Kitchen supplies	9,011	9,905
	93,094	66,453
	$ 397,516	$ 105,065

CHANNEL AREA LOGGERS LTD.

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1982

4. Fixed Assets

The major categories of fixed assets and related accumulated depreciation and amortization at March 31, 1982 are:

	Cost	Accumulated Depreciation and Amortization	Rates
Buildings and trailers	$ 167,015	$ 64,748	10-33 1/3%
Machinery and equipment	307,681	171,454	20-30%
Main logging road	69,331	62,068	3-5 years Straight-line
	$ 544,027	$ 298,270	

It is the company's practice to provide for depreciation of buildings, trailers, machinery and equipment under the declining balance basis at the rates shown above and to provide for the amortization of the main logging road on the straight-line basis over 3 to 5 years. The total amount so provided for the current year was $65,249 (1981 - $78,281).

5. Bank Demand Loan

The bank demand loan is guaranteed by the Province of Manitoba to a maximum of $800,000 including unpaid interest.

6. Accounts Payable

The major categories of accounts payable are:

	1982	1981
Trade	$ 136,947	$ 146,208
Wage deductions	6,511	14,002
Employees	17,315	9,564
Province of Manitoba	35,305	18,120
	$ 196,078	$ 187,894

7. Capital Stock

The issued shares are held by the Province of Manitoba except for eight shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

8. Wages and Payments to Sub-Contractors

The total wages and fringe benefits included in operating expenditures for the year ended March 31, 1982 amounted to $484,100 (1981 - $565,000). Payments to and on behalf of sub-contractors included in operating expenditures amounted to $538,000 (1981 - $190,000).

CHANNEL AREA LOGGERS LTD.

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1982

9. Services Provided by the Province

The Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company.